

POLICY & RESOURCES COMMITTEE

9 February 2010

OVERALL REVENUE ESTIMATES 2010/11 COUNCIL TAX SETTING

Director of Resources

Purpose

To advise members of the Council's overall revenue budget position for 2010/11 and to enable the committee to recommend to the Council the council tax rate to be set for 2010/11.

For members' information, Appendices A to E relate to this item.

Background

The Council's current Medium Term Financial Plan covering the period 2009/10 to 2011/12 sets the framework for the Council's business and service planning and preparation of the detailed estimates for the forthcoming financial year. The plan was prepared in the context of the current economic situation and its implications for the Council's financial position, with prudence and sustainability being over-riding factors. The plan identified a need for the Council to achieve savings of over £1.1 million by 2011/12. The Council's strategic financial objectives, as set out in the Plan, are as follows:

- to direct resources towards the Community's goals and priorities which achieve the greatest positive impact;
- to provide cost effective and affordable services;
- to maintain low council tax levels;
- to maintain debt-free status;
- to maintain stable financial reserves and balances;
- to make best use of the Council's assets, including financial resources, fixed assets, staff and information technology; and
- to plan in a prudent and sustainable manner for the future.

2010/10 Local Government Finance Settlement

Confirmation of the Council's grant settlement for 2010/11, the final year of the three year settlement announced in CSR07, has now been received. The final settlement announced on 20th January is £6.962 million, an increase of only 1.1% or £78,000 compared with the adjusted 2009/10 settlement. Government grant, which is met from national taxation, makes up the majority of resources available to fund the Council's net budget requirement (62% in 2009/10). The remaining 38% is funded by council tax. Because of these ratios, the Council is subject to a 'gearing effect' whereby relatively small percentage changes in grant or spending need can result in much greater increases in council tax (a 1% spending increase without any additional Government support would result in a 2.7% increase in council tax). The grant distribution system retains a mechanism for protecting local authorities from detrimental changes to their grant allocation (the floor damping system). For 2010/11, the floor damping system will reduce the Council's settlement by £60,000 from the amount calculated by the formula.

For several years, capping has been imposed on authorities which increased their council tax by an amount considered to be excessive. Ministers have stated that the Government anticipates council tax increases in 2010/11 to fall further from their 2009/10 level of 3% and in

fact to achieve a 16 year low, whilst at the same time authorities protect and improve front line services. It has been confirmed that the Government remains prepared to take capping action against excessive increases by authorities and to require them to re-bill households for a lower council tax if necessary.

Overall Budget Position

The estimates for each of the Council's committees have now been completed. 2010/11 has undoubtedly been one of the most difficult budget cycles that the Council has faced in many years. An exercise to identify efficiency and other savings has been undertaken in conjunction with committee chairmen over the past six months and sufficient savings have been identified to balance the budget. Member input and challenge has been fundamental in terms of testing proposals against the Council's goals and priorities.

A small number of changes have been made to the estimates since they were considered by individual service committees. These are detailed at *Appendix A*. In particular, the restructure of the Environmental Services Department has been concluded subsequent to the committee date and the proposals which are included elsewhere on tonight's agenda for approval are incorporated within the estimates. Should these proposals not be approved, appropriate adjustments would have to be made.

Including savings identified and other minor adjustments, the overall position (including capital charges but excluding support services costs) is currently as follows:

	Approved Estimate £000
Policy & Resources Committee	1,585
Finance & Personnel Committee	4,002
Environmental Services Committee	4,286
Community Services Committee – Leisure	3,435
Community Services Committee – Housing	4,510
Planning & Licensing Committee	263
	<hr/> 18,081 <hr/>

The total movement in the budget from 2009/10 is as follows:

	£000	£000
2009/10 approved budget (including capital charges but excluding support services costs)		18,162
Inflation	146	
Increases in fees and charges	(77)	
Changes in demand for services	460	
Removal of one-off costs	(75)	
Legislative / statutory changes	148	
New initiatives	62	
Efficiency savings	(944)	
Revenue implications of approved capital projects	51	
Transfers and accounting changes	(41)	
Salary growth	<hr/> 189 <hr/>	
		(81)
2010/11 budget		<hr/> 18,081 <hr/>

The summary of general fund budgets which sets out the overall revenue position of the Council based on these latest estimates is shown at *Appendix B*.

Also included in the income and expenditure account is an estimate of £809,000 to reflect the income to the general fund that results from central and departmental recharges to the service organisations. Increases in these charges compared with previous years have been limited as agreed by the Finance and Personnel Committee of 25 January 2005, in order to reduce the volatility of charges to the Council's service organisations, whilst still complying with recommended best practice.

Key Budget Risks

There is inevitably an element of risk within any budget. Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of estimates made for the purposes of calculating the Council's budget.

The Director of Resources has given careful consideration to the proposed estimates and particularly to the elements of risk associated with those estimates and is satisfied that, within the normal and acceptable degree of uncertainty which is inevitably involved in preparing estimates, they represent a robust position on which the Council may rely in setting its budget and council tax. In preparing the estimates for 2009/10, prudent and realistic assumptions have been made on levels of pay awards and price increases and the financial implications of known service development plans as set out in departmental business and service plans have been incorporated in the revenue budget. Current and previous years' experience has been assessed as part of the budget setting process and appropriate actions taken.

Whilst action has been taken to minimise the risk remaining in the budget, there inevitably remains an element of risk in any budget, particularly in the current economic climate. The Council must ensure that significant risks in the budget are identified and that the reserves and balances that it maintains are adequate to meet these risks.

Set out below are what are considered to be the key budget risks for 2009/10.

Current Year's Outturn

Any overspend anticipated in the current year should be built into the Council's budget plans for the coming year. The latest general fund monitor shows a projected overspend for 2009/10 of £171,000, mainly relating to the impact of the economic downturn. Officers are continuing to seek savings to offset the current year's projected overspend over the remainder of the financial year; any remaining overspend will be funded from general fund balances.

Inflation Assumptions

The estimates make provision for pay inflation on the current year's estimate of 0.5%, which reflects the overprovision made in the current year (estimated 2.0% increase against actual 1.25% increase). No across the board provision has been made for non pay inflation, which again reflects the overprovision made in the current year. However, with CPI having risen to 2.8% and RPI to 2.4% from its low of -1.6% in June, there remains a risk that the assumptions may be understated.

Rents, Sales, Fees and Charges

The proportion of the Council's costs that are funded by income from rents, sales, fees and charges is significant and as such, maintaining levels of external income is the most significant risk within the Council's estimates. By far the biggest barrier to setting a balanced budget for 2010/11 and by far the biggest risk that remains within that budget is

the impact of current economic conditions on many of the Council's sources of income. Income from planning and building control applications and land charges continues to be low and the state of the economy also impacts significantly on income from commercial properties, which generate close to £3 million per annum. Whilst reduced discretionary spend at the leisure facilities has not, to date, been seen to any great extent, this remains a risk. The Council has sought to ensure that income levels are estimated on a realistic and prudent basis in order that reductions will not have a significant effect on its financial position. In addition, income levels will continue to be closely monitored throughout the financial year as a high risk budget area.

General Election

A general election will take place in 2010. In view of the pressures on public spending, there is a significant risk that funding for local government will reduce. It has been assumed for the purpose of these estimates that any changes to local government financing arrangements that arise as a result of the 2010 general election will not impact on the 2010/11 financial year.

Pension Contribution Rate

The level of the pension contribution rate is now fixed until the outcome of the 2010 actuarial valuation is known. That valuation will set minimum contribution rates for the three years beginning 2011/12. Whilst this is not a significant risk in setting the budget for 2010/11, therefore, it does remain a significant financial risk looking further into the future.

Review of Reserves and Balances

Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to report on the adequacy of financial reserves, taking account of the strategic, operational and financial risks facing the authority.

Earmarked Reserves

Over several years, the Council has established a number of financial reserves earmarked to provide sums for unforeseen or unexpected events, and also to build up over a period of time sufficient resources to pay for repairs to Council buildings and other infrastructure.

It was agreed in 2004/05 that the Capital and Building Works Reserve should not be utilised as a matter of course, but should be built up over a number years to fund future investment in major capital projects. As at 31st March 2009, the reserve stood at £2.812 million. No further contributions are proposed in 2009/10 or 2010/11.

For some years, the Council has maintained a revenue reserve to cover unforeseen personnel related expenditure. Currently the reserve stands at £62,000, although decisions are yet to be made on the funding of certain costs incurred in the current year, which may reduce the level of the reserve.

An additional reserve was also created in 2007/08 using the funds received from the Local Authority Business Growth Incentive (LABGI) Scheme. In view of the source of these funds, they have been set aside for economic development purposes. The reserve currently stands at £710,000 and specific plans for the funds are yet to be developed.

Over the medium term, the Council will face increasing financial pressures as a result of likely reductions in central Government funding, demand on services and not least the additional costs that may be incurred due to the siting of Olympic facilities in the borough. In order to offer some protection to services, it is proposed that the opportunity is taken in 2010/11 to set aside funding for future years and that a new earmarked revenue reserve be established in the amount of £448,000 for this purpose.

At 31st March 2011, earmarked capital and revenue reserves, which are listed at *Appendix E*, are expected to total £4.796 million. The Director of Resources has considered the level and purpose of the reserves currently held by the Council and those proposed to be established and is satisfied that these are adequate.

Use of General Fund Balances

As well as reviewing the level of specific reserves as described above, the Council is also required as part of the budget setting process to assess the adequacy of unallocated general reserves, i.e. General Fund balances. There is no specific guidance on the appropriate level of a local authority's balances, although a reasonable level is generally accepted to be between 5% and 100% of forecast net operating expenditure. Based on 2009/10 budget information, this means that the Council should hold balances in the range of £0.87 million to £17.4 million. The Council's general fund balance at 1st April 2009 stands at £6.1 million, comfortably within that range.

There is no theoretically correct level of General Fund balances because the issues that affect the Council's need for reserves vary over time. It is not prudent to run down balances to fund ongoing revenue expenditure, although one-off contributions to smooth the effects of changes in expenditure between years may be considered. It is necessary to consider the strategic, operational and financial risks facing the Council in order to assess the adequacy of balances. During 2009/10, the Council has continued to embed risk management within its activities. In addition, the specific risk items impacting on the budget for 2010/11 are set out above. Over the medium term planning period, the Council will aim to hold general balances of at least £4.0m (or 23% of net operating expenditure, based on 2009/10), which the Director of Resources considers adequate to allow the risks facing the Council to be managed without adversely affecting the Council's services or its financial stability.

Revenue Funding of Capital Expenditure

For many years, the Council has funded part of its capital programme from revenue contributions at least equivalent to the returns earned on its investments. This is a fundamental element of the Council's financial strategy which ensures that the Council does not rely on its investment returns to finance ongoing revenue expenditure and means that services are not put at risk as a result of fluctuations in interest rates and investment balances. The current economic climate and the reductions in the bank rate over the past year emphasise the wisdom of this long-standing policy. Total interest on investments is estimated at £0.5 million in 2010/11. A revenue contribution to capital of £0.5 is therefore proposed.

Use of Resources Assessment

The external auditors have completed their latest assessment of the Council's use of resources and have confirmed that the Council achieved an overall score of two out of four.

Council Tax Rate 2010/11

Attached at *Appendix B* is the draft summary of the Council's revenue estimates for 2010/11. The Council is mindful of the increasing financial difficulties being faced by many of its residents since the current year's council tax was set in February of this year and has resolved to keep any increase in council tax to an absolute minimum. At the same time, the Council needs to take account of future needs as well as those for the immediate budget year. It should be borne in mind that additional income generated by any council tax increase is income not just for 2010/11 but for all future financial years.

However, the Council has achieved significant savings through seeking more efficient ways to deliver services, and this has enabled it to balance its budget for 2010/11 without the need to increase council tax from its current level. It is proposed, therefore, that the rate of council tax for a Band D property in 2010/11 be retained at its current level of £113.24.

Conclusions

2010/11 has been one of the most challenging budget cycles of recent years. The poor settlement received and the economic downturn particularly have meant that significant savings have had to be identified to balance the budget. The Council has achieved these savings through finding ways to deliver services more efficiently, and this has enabled it to maintain council tax at its current level. This means that residents will continue to pay only £2.18 per week (at Band D) for the services which the Borough Council provides. Unless other districts choose to reduce their council tax rate in 2010/11, Broxbourne's council tax will remain the lowest of all English shire districts and by far the lowest in Hertfordshire. Some comparative data is set out in *Appendices C and D* that illustrates Broxbourne's excellent financial position compared to other boroughs over the past ten years.

The Council will not receive final information from its preceptors for 2010/11 until 23rd February. The County Council has publicly announced its intention to retain its council tax rate at the current level, however no formal indication of the likely tax rates to be set by the Police authority has yet been received. This timing causes difficulties for the Borough Council as information will not be available before the scheduled circulation of the collection fund estimates and council tax resolution on 16th February. It will be necessary, therefore, for papers to be tabled at the Council meeting on 23rd February.

Financial and Risk Implications

The financial and risk implications are included within the report

Legal Implications

The report fulfils the requirement of section 25 of the Local Government Act 2003 for the Chief Finance Officer to report on the robustness of the estimates made for the purposes of calculating the Council's budget and on the adequacy of proposed financial reserves.

RECOMMENDED that the Committee:

- (a) approves the amended service committee estimates;**
- (b) approves a revenue contribution to capital of £500,000;**
- (c) approves the establishment of a new earmarked reserve in the sum of £448,000 to provide for financial pressures in future years; and**
- (d) recommends to the Council that the rate of council tax to be set for 2010/11 for a Band D property is £113.24, unchanged from 2009/10.**

Contact Officer
Miss G Clelland (Ext 5518)

List of Background Papers
Council's revenue estimates 2010/11
Relevant files held in the accountancy section
Medium Term Financial Plan 2009/10 – 2011/12

Chief Executive Officer